



Would Warren Buffett Buy Air Canada (TSX:AC) Stock?

Description

Air Canada ([TSX:AC](#))(TSX.AC.B) has been one of the hardest hit **TSX** stocks in the recent market crash. Starting its free-fall on February 20, it fell 73% by March 19th, albeit it has since made some gains back. However, it's still down about twice as much as the TSX Index.

When you get a big, established company going on sale, dip buyers naturally get curious. If the COVID-19 pandemic is short-lived, then AC stock should bounce back rapidly. As of writing, the stock was trading at just about three times trailing earnings—a stunningly cheap valuation.

If this seems like the type of value play that Warren Buffett would make, it is. In fact, the Oracle has made similar plays himself. In February, an SEC filing revealed that **Berkshire Hathaway** [upped its stake](#) in **Delta Airlines** ([NYSE:DAL](#)) after its stock fell.

It was a classic Buffett play: buying a beaten-down company on the cheap. It also raises the question of whether Air Canada could be a similar value play. As Canada's largest airline, it stands a chance of riding out the crisis and coming back bigger than ever.

But would Buffett himself buy it?

Buffett's Delta play

To gauge whether Buffett would buy AC, we need to look at his most similar investment: Delta Airlines.

Buffett has long held DAL shares, and he added \$45.3 million worth to his position in February. Buffett has gone on the record as saying that the trend of airline consolidation is good for investors.

The less competition there is between airlines, the less they'll have to compete on price, which means more money in investors' pockets.

As for why he likes Delta specifically, there are a few possible reasons. First, Delta has little exposure to the 737 Max crisis, which is causing problems for other airlines.

Second, it has been buying up its competition, most notably through its 2008 Northwest Airlines purchase. Finally, it's extremely cheap, trading at three times earnings—and was already cheap before the market crash.

Why Air Canada may be similar

Air Canada has some features that could make it similar to Delta. Most notably, it has benefited from the airline consolidation trend, acquiring its largest competitor in 2000.

The company's only major competitor in Canada is WestJet, which gives it a strong market position—something Buffett would definitely approve of. Additionally, AC is [ridiculously cheap](#), with a P/E ratio of just 2.67 as of this writing. Again, something Buffett would like.

On the other hand, Air Canada has plenty of 737 Max jets in its fleet — a major liability it was dealing with long before the COVID-19 crisis. That's one quagmire that Delta has managed to avoid, which gives it an edge over AC.

Apart from that one thing, though, Air Canada has many of the same things going for it that Delta has. So if you like Buffett's Delta play and want TSX-listed equivalent, AC may be one to consider.

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